

# **BENEFITS SOLUTION**

## **Plan Audit and Negotiation Process**

**Frank Goitanich, MBA, CMA, GBA**



**Professional Guidance  
In Benefits Management**

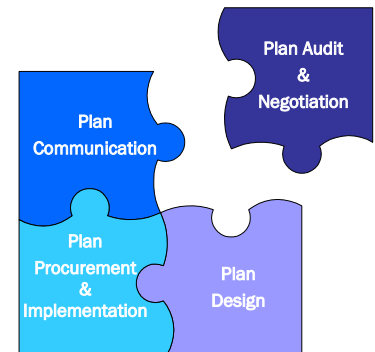
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## “Is our plan priced fairly?”

Our job is to provide an unqualified “yes” to this question.

Benefits management requires constant vigilance and responsiveness to pre-empt damaging trends. It also calls for an assertive, proactive stance with vendors based on an in-depth understanding of pricing mechanics, industry trends and practices.

Our *Audit and Negotiation Process* is designed to provide timely insights linked to an executable action plan for managing your long-term costs and delivering value.



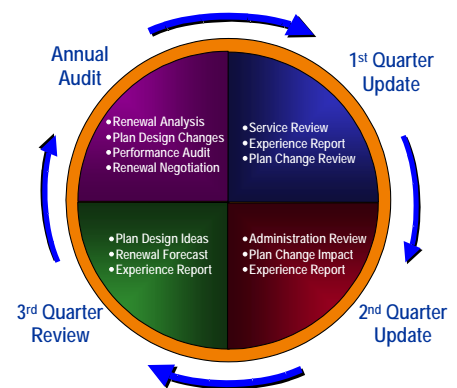
### INTRODUCING OUR AUDIT AND NEGOTIATION PROCESS

Benefits costs continue to rise much faster than inflation — our most important role is to help you manage these costs while maintaining the integrity of your programs.

Insurers are concerned with their own financial interests, not yours. Benefits pricing can be confusing under the best of circumstances, and clients need professional input to help them cut through industry jargon and assess the validity of the carrier’s pricing requests. That’s where we can help.

In addition to day-to-day support, we report to our clients *quarterly* to review claims experience and assess cost containment and value enhancement strategies.

These reviews are the key elements of our *Audit and Negotiation Process*, one of our core *Benefits Management Processes*. Our clients receive two *Quarterly Updates*, a 3<sup>rd</sup> *Quarter Review*, and an *Annual Audit*.



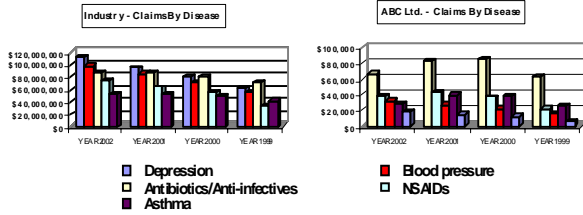
### OUR ANNUAL AUDIT

The *Annual Audit* is the cornerstone of our benefits management efforts. Insurers use trend and inflation assumptions to re-price benefits plans every year. They try to recoup any losses from the previous year, then estimate increases in next year’s claims and factor in profits. Unlike many brokers or consultants, we do not automatically accept the carrier’s renewal assumptions — we validate these assumptions in our *Annual Audit* by:

- Reviewing the workforce’s demographic profile and calculating our own rates for benefits
- Reviewing claims history and isolating ‘one-time-only’ events which should be excluded from claims experience
- Identifying favourable claims trends that will have an increasingly positive impact on claims experience
- Drilling down into the renewal to identify all pricing assumptions (breakevens, reserves, trends, etc.)
- Calculating our own renewal rates based on our own breakeven, reserve and trend assumptions

We also re-visit plan design and estimate the cost/benefit of implementing plan enhancements or restrictions.

| Rank                | Drug               | Treatment                               | Cost      | %      |
|---------------------|--------------------|---|-----------|--------|
| 1                   | Entrel (25 mg ltr) | Moderate to severe rheumatoid arthritis | \$11,478  | 4.4%   |
| 2                   | Lipitor (10mg)     | High cholesterol                        | \$8,125   | 3.1%   |
| 3                   | Losec (20 mg)      | Stomach ulcers                          | \$8,099   | 3.1%   |
| Total For TOP 10    |                    |   | \$54,671  | 20.8%  |
| Total For All Drugs |                    |   | \$263,383 | 100.0% |

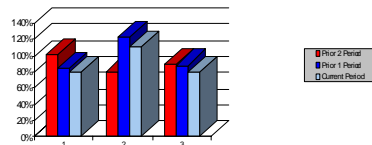


## DRUG CLAIMS ANALYSIS

We analyze drug claims and compare them to industry averages. If the pattern deviates from the norm, we can often determine the source of the problem and suggest a course of action to correct it.

This exercise yields fraud control data and also helps us identify wellness initiatives that may reduce costs by improving employee health and productivity and reducing absenteeism.

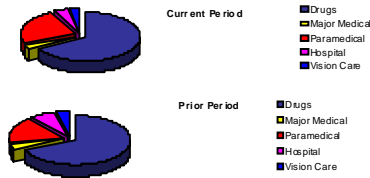
| Benefit       | EXPERIENCE SUMMARY          |                 |                             |                 |                           |            |                  |                  |            |
|---------------|-----------------------------|-----------------|-----------------------------|-----------------|---------------------------|------------|------------------|------------------|------------|
|               | Current Period              |                 |                             |                 | Prior Period              |            |                  |                  |            |
|               | Nov 1, 2001 to Oct 31, 2002 |                 | Nov 1, 2000 to Oct 31, 2001 |                 | Nov 1, '99 to Oct 31, '00 |            | UR               |                  |            |
|               | Premium                     | Incurd Claims   | Loss Ratio                  | Premium         | Incurd Claims             | Loss Ratio | Premium          | Incurd Claims    |            |
| Day/Exam Dues | \$311,166                   | \$20,300        | 6%                          | \$27,162        | \$26,662                  | 98%        | \$300,489        | \$100,249        | 33%        |
| Healthcare    | \$80,644                    | \$10,168        | 12%                         | \$7,004         | \$20,322                  | 29%        | \$49,301         | \$40,000         | 81%        |
| Dental Care   | \$289,724                   | \$24,810        | 8%                          | \$27,371        | \$210,331                 | 73%        | \$203,342        | \$186,638        | 92%        |
| <b>Total</b>  | <b>\$681,534</b>            | <b>\$55,278</b> | <b>8%</b>                   | <b>\$51,537</b> | <b>\$47,015</b>           | <b>91%</b> | <b>\$449,132</b> | <b>\$226,887</b> | <b>50%</b> |



## FINANCIAL ANALYSIS

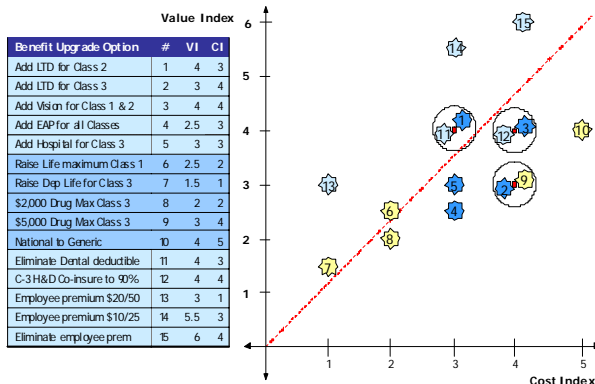
We monitor claims and premiums, comparing them to the carrier's target breakeven. This is a key component of our 'early warning system' designed to avoid surprises at renewal.

| Service       | Current Period<br>Oct 02 to Sept 03 |               | Prior Period<br>Oct 01 to Sept 02 |               |
|---------------|-------------------------------------|---------------|-----------------------------------|---------------|
|               | Amount                              | %             | Amount                            | %             |
| Drugs         | \$1,622,558                         | 66.9%         | \$1,170,484                       | 68.2%         |
| Major Medical | \$5,288,222                         | 2.2%          | \$8,605,005                       | 3.4%          |
| Paramedical   | \$56,742                            | 23.4%         | \$42,682                          | 17.1%         |
| Hospital      | \$10,925                            | 4.4%          | \$17,918                          | 7.2%          |
| Vision Care   | \$7,401                             | 3.1%          | \$10,291                          | 4.1%          |
| <b>Total</b>  | <b>\$2,422,608</b>                  | <b>100.0%</b> | <b>\$2,429,980</b>                | <b>100.0%</b> |



## BENEFIT ANALYSIS

We review dental, health and disability claims history and use trend analysis to identify variations from either company or industry norms.



## PLAN DESIGN RECOMMENDATIONS

We outline possible plan design changes, pricing each option. We review both the financial and non-financial implications of any proposed plan change. This includes using a proprietary tool that compares value to cost on a standardized scale.

## OUR NEGOTIATION PROCESS

We compare the carrier's proposed renewal increase to our pricing analysis, and to other insurers' pricing renewals in the marketplace. This 'keeps the insurer honest' and helps us negotiate changes to the carrier's renewal, when appropriate. We build a rock solid case for our pricing request, rather than relying on the threat of 'moving the case' — a tactic that is losing its effectiveness in a marketplace dominated by three major players and a handful of mid-sized firms.

Rather than settle for one-time premium reductions, we negotiate permanent cost savings through such concessions as:

- Premium **rollbacks** for renewals with favourable claims experience
- Upgrading industry code assessments for life and LTD benefits
- Improvements in the carrier's administrative expenses
- Reductions in claims reserves levels
- Use of more favourable trend and inflation assumptions

All of these 'behind-the-scenes' concessions combine to yield permanent savings rather than temporary, cosmetic ones. We keep negotiating until we've secured the best possible, sustainable pricing for our clients.

Benemax's **Audit and Negotiation Process** is the foundation of our **360° Benefits Solution™**.

## OUR CLIENTS SAY...

*Benemax Financial Group has provided us with professional, thorough advice for the past decade. We receive regular performance summaries and advice throughout the year.*

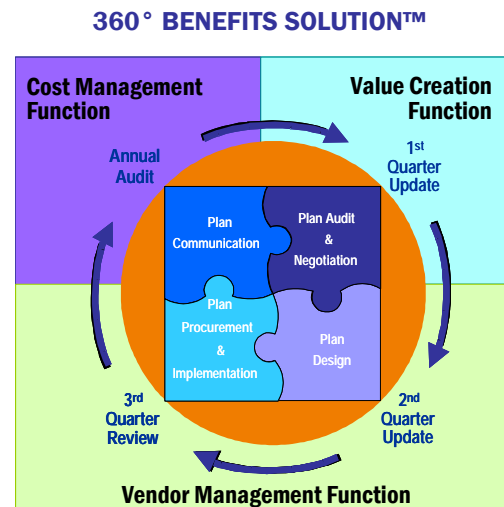
— **Mark Griffiths, CMA**  
**Vice President – Operations & Controller, Milacron Canada**

*Benemax helps us understand the factors that drive our benefits costs and consistently provides effective strategies for managing these costs. Armed with this information, we have been able to make decisions that have maintained the integrity of our benefits program.*

— **Ismail Sawant, CMA**  
**Controller, Chemque Canada**

*During the annual reviews with the carrier, Benemax has been extremely successful in negotiating lesser rates than those proposed.*

— **James Eric Kirk**  
**President & CEO (Retired), Goderich Elevators Ltd**



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